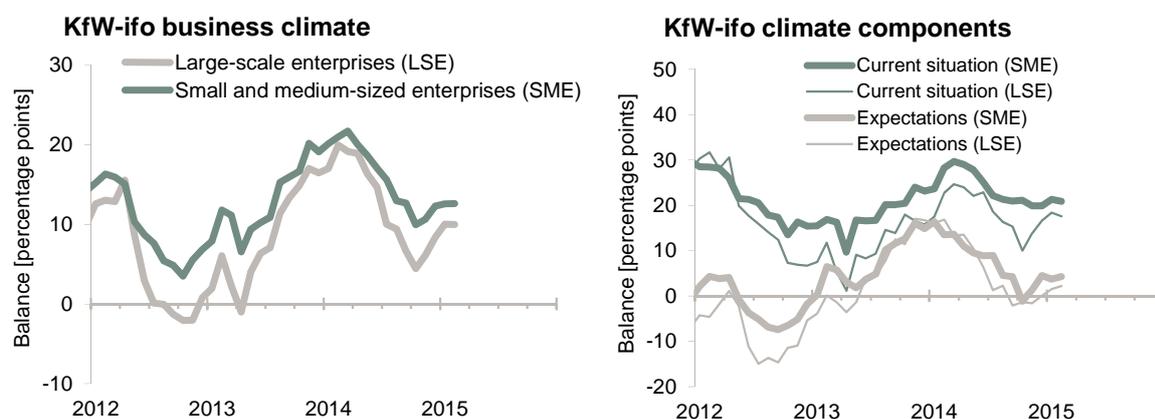


KfW-ifo SME Barometer February 2015

German SMEs are cautiously optimistic

- Improved expectations stabilise SME business climate
- At start of year, SMEs still less than euphoric about business conditions
- Large enterprises are doing better than in the autumn thanks to cheap oil and weaker euro



Source: KfW Economic Research, ifo Institute Munich

SMEs: upbeat but not euphoric

German SMEs enter spring with guarded optimism. This is a wise attitude because until the causes of weak growth in the European crisis countries are rectified, the economic outlook will not improve for Germany either. The business sentiment of small and medium-sized enterprises has improved by 2.6 points to 12.6 balance points since October. This significant increase is primarily based on optimism over future developments, reflected in SMEs' business expectations. However, SMEs do not assess their conditions more positively at the start of the year than in the autumn. This reflects the overall economic environment. The depreciation of the euro and the lower oil price boosted the wider economy in the final quarter of 2014. Since the beginning of the year, however, the oil price has risen again slightly. The euro will continue to depreciate in response to the European Central Bank's bond purchases for the time being but should stabilise over the course of the year. SMEs' business conditions and expectations have evolved as follows:

- Business conditions have slightly worsened by 0.5 points, falling to 20.8 balance points against January. Their assessment remains unchanged against the previous quarter. The fourth-quarter surge in production has influenced neither their view of current business conditions nor their business expectations. SMEs obviously do not expect the boom-like development to continue.
- Business expectations recovered slightly by 0.6 points to 4.3 balance points in February. Expectations rose by 2.7 points in a three-month comparison – a significant improvement following the low in October. The building and civil engineering industry, in particular, is relatively optimistic. This is fuelled primarily by residential construction, which is receiving a strong boost from low interest rates and high immigration. The manufacturing sector is less optimistic, especially with regard to sales price expectations, which have been negative for two years now, in line with falling output prices.

Business sentiment among large enterprises much more positive since autumn low

The business sentiment of large enterprises is continuing to improve. After the strong increase in August, the index stabilised at 10.0 balance points in February. Both the cheap euro and the robust US economy are bolstering exports. This particularly benefits the large manufacturing enterprises, whose business sentiment has improved the most. Large enterprises' assessment of current conditions was 4.5 points higher in a three-month comparison, reflecting a significantly brighter mood. Expectations are also improving from a low level, with an increase of 0.7 points to 2.2 balance points from January to February. This reflects greater confidence but in no way signifies a fundamental improvement in actual business conditions.

SMEs and large enterprises intend to continue hiring more workers

Employment expectations have risen particularly among large enterprises, climbing by an impressive 7.1 points to 8.9 balance points since October. The fact that Germany is economically in better shape than other European states is largely due to the excellent condition of the job market. Relatively low unemployment strengthens workers' incomes and eases the strain on public budgets. Immigration and rising female job market participation rates are keeping skills shortages low.

Mixed economic outlook with potential surprises

There is much to indicate that the economy will recover in 2015: the depreciated euro, the fallen oil price, the good job market situation with tangible wage increases and persistently low interest rates. However, the weak growth and unstable economic conditions in the rest of Europe are likely to prevent a more vigorous recovery. It is also doubtful whether the oil price will remain this low. The conflict with Russia and the economic turbulence in Greece present considerable risks. If common sense prevails, however, the participating states should have an interest in de-escalating both conflicts. These uncertainties hold much potential for surprises – both positive and negative.

Author: Martin Müller, +49 (0) 69 7431-3944, martin.mueller@kfw.de
Press contact: Christine Volk, +49 (0) 69 7431-3867, christine.volk@kfw.de

Attachment: SME business climate in figures**KfW-ifo SME Barometer**

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Feb/14	Sep/14	Oct/14	Nov/14	Dec/14	Jan/15	Feb/15			
Business climate											
Manufacturing	SME	17.8	9.3	6.5	6.9	10.4	9.9	10.6	0.7	-7.2	2.7
	LSE	21.4	5.8	2.4	5.3	8.2	10.7	10.7	0.0	-10.7	5.4
Construction	SME	25.2	22.8	20.9	21.6	20.8	19.8	18.5	-1.3	-6.7	-2.0
	LSE	22.2	9.7	13.7	12.2	8.5	9.4	11.3	1.9	-10.9	-2.1
Retail trade	SME	21.2	12.9	10.5	11.5	11.7	18.4	16.5	-1.9	-4.7	3.9
	LSE	11.7	7.6	3.8	4.9	7.9	4.2	4.5	0.3	-7.2	0.1
Wholesale trade	SME	30.9	12.3	11.3	13.4	13.5	14.5	10.7	-3.8	-20.2	0.6
	LSE	19.6	6.0	8.5	6.7	8.5	11.6	10.3	-1.3	-9.3	3.1
All economic sectors	SME	21.0	12.7	10.0	10.7	12.3	12.6	12.6	0.0	-8.4	1.4
	LSE	20.0	6.7	4.5	6.2	8.4	10.0	10.0	0.0	-10.0	3.7
Current situation	SME	28.3	20.9	21.1	19.9	19.9	21.3	20.8	-0.5	-7.5	0.0
	LSE	22.7	15.3	10.0	13.7	16.6	18.4	17.6	-0.8	-5.1	4.5
Expectations	SME	13.5	4.3	-1.2	1.4	4.5	3.7	4.3	0.6	-9.2	2.7
	LSE	16.8	-2.1	-1.4	-1.7	0.0	1.5	2.2	0.7	-14.6	3.0
West Germany	SME	21.5	12.8	10.2	11.2	12.8	13.2	12.8	-0.4	-8.7	1.5
	LSE	19.8	6.2	4.2	5.7	8.1	9.8	9.8	0.0	-10.0	3.8
East Germany	SME	17.9	12.7	9.1	7.9	9.7	8.9	12.2	3.3	-5.7	0.4
	LSE	23.6	16.7	12.1	16.2	16.4	15.2	14.2	-1.0	-9.4	0.3
Employment expectations	SME	8.4	5.9	4.7	3.2	5.7	5.9	5.7	-0.2	-2.7	1.2
	LSE	8.7	5.6	1.8	5.7	7.1	8.4	8.9	0.5	0.2	3.7
Sales price expectations	SME	-0.2	-4.0	-2.9	-3.8	-5.3	-3.6	-2.2	1.4	-2.0	-0.1
	LSE	-3.8	-4.6	-2.9	-3.2	-8.0	-9.8	-7.1	2.7	-3.3	-4.7

Explanations and abbreviations:

Differences due to rounding possible, Sources: KfW, ifo

* Seasonally and mean adjusted (long-term mean since January 1991 = 0)

S(mall and) **M**(edium-sized) **E**(nterprises)

L(arge-) **S**cale **E**(nterprises)

Change in percentage points **m**(onth)-**o**(ver)-**m**(onth)

Change in percentage points **y**(ear)-**o**(ver)-**y**(ear)

Change in percentage points **3 m**(onths period)-**o**(ver)-**3 m**(onths period)

Revisions relative to previous publications may occur due to seasonal and mean adjustment as well as rounding.

Construction and interpretation of the KfW-ifo SME Barometer. The KfW-ifo SME Barometer indicator family is based on a scale-of-enterprise evaluation of the well-known ifo business climate index for which about 7,000 enterprises from trade and industry (manufacturing, construction, wholesale and retail trades) from western and eastern Germany are polled every month on current and future business, including around 5,600 SMEs. Enterprises are generally classed as small to medium-sized if they employ a workforce of not more than 500 and record an annual turnover not exceeding EUR 50 million. For a more accurate analysis, however, these quantitative limits have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million) and the construction industry (up to 200 employees). All enterprises that exceed at least one of these thresholds are classed as large-scale enterprises. The KfW-ifo SME Barometer reports the balance of current business assessments (percentage of positive answers less percentage of negative answers), the balance of business expectations for the next six months, ascertained in a similar way, and the inferred mean average value for the business climate. Moreover, the enterprises' employment and domestic sales price expectations are also expressed as balance figures. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.